MERAFONG CITY LOCAL MUNICIPALITY

MEDIUM TERM BUDGET 2012/2013 TO 2014/2015

ITEM: MEDIUM TERM BUDGET 2012/2013 TO 2014/2015

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Purpose

The purpose of this document is to submit the 2012/13to 2014/2015Medium Term Budget and budget related policies for approval and adoption

The Budget has been compiled within the framework of the MFMA, Circulars No 58 and 59 of the NationalTreasury and the New Municipal Budget Regulations.

Circulars No 58 and 59 provides instructions, guidance and information on crucial issues thatmunicipalitiesneed to consider when preparing their budgets. These issues include the local response to theglobal economic crisis, headline inflation forecasts, revision of rates, tariffs and other charges,transfers to municipalities, budget process and submissions, and the Municipal Budget andReporting Regulations.

On 23 January 2009 the Minister of Finance gazetted new Municipal Budgeting andReporting Regulations. The Merafong City Local Municipality is required to fully comply with the regulations as from 01 July 2010, that is, full compliance when the final budget is tabled in May2012. For the budget, it is expected that the Municipality complies as far as possible.

The budget was tabled in March 2012 and consultation meetings were held with the community.

Part 1

Executive Summary

The application of sound financial management principles for the compilation of the Councils financial plan is essential and critical to ensure that the Council remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Councils business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

The Council has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Council has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 58 and 59 were used to guide the compilation of the 2012/13 MTREF.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope;
- The increased cost of bulk water and electricity (due to tariff increases from Rand Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that are not finalised and the high increases that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2012/13 MTREF process; and
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- Producing a Balanced Budget – ensuring that the expenditure is aligned to the revenue and that the Council has sufficient cash to meet its debt obligations.
- Sustainability – endure that the capital investment is within the financial capacity of Council and ensure that there is continuous investment on the infrastructure maintenance and replacement in a medium to long term period.
- Budget needs to respond to basics service delivery.
- Stabilise the balance sheet – creating cash reserves to support and improve the current ratio and future capital investment capacity.
- Stabilisation and protection of the revenue base.
- Need to produce savings to facilitate the implementation of new programmes.

- On-going costs should be funded with on-going revenues – aligning continuing expenditures with continuing revenues, on a level that can be reasonably sustained and reduce reliance on onetime funding.
- Review all Council services and programs for operational efficiencies to improve service levels and delivery / managing the cost down.
- The 2011/12 Adjustments Budget priorities and targets, as well as the base line allocations contained in the Adjustments Budget were adopted as the upper limits for the new baselines for the 2012/13 annual budget;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2012/13 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2012/13 MTREF

	Adjustment Budget 2011/12	Budget Year 2012/13	Budget Year 2013/14	Budget Year 2014/15
R Thousands				
Total Operating Revenue	942 404	1 170 375	1 114 672	1 181 552
Total Operating Expenditure	1 018 724	1 198 218	1 139 437	1 207 804
(Surplus) / Deficit for the year	(76320)	(27 844)	(24 766)	(26 251)
Total Capital Expenditure	304 893	320 913	144 397	113 648

Total operating revenue has grown by 24per cent or R228 million for the 2012/13 financial year when compared to the 2012/13 Adjustments Budget. For the two outer years, operational revenue will decrease by R55.7 and increase by R66.9Million respectively, equating to a total revenue growth of R239 million over the MTREF when compared to the 2011/12 financial year.

Total operating expenditure for the 2012/13 financial year has been appropriated at R1.198 million and translates into a budgeted deficit of R27.844 million. When compared to the 2011/12 Adjustments Budget, operational expenditure has grown by 17.6 per cent in the 2012/13 budget and decrease by R58 Million and increase by R68 Million for each of the respective outer years of the MTREF. The operating deficit for the two outer years will remains stable. These deficits are as of a result of depreciation costs on fair value adjustments on infrastructure assets. These deficits are funded from the accumulated surplus of R2.3 billion.

The capital budget of R320.9 Million for 2012/13 is 5.25 per cent more when compared to the 2011/12 Adjustment Budget. A substantial portion of the capital budget will be funded from borrowing over MTREF with anticipated borrowings of R22 Million in 2012/2013 and R50 Million in the 2013/2014 financial year. Note that the Council has reached its prudential

borrowing limits and so there is very little scope to substantially increase these borrowing levels over the medium-term.

Section 18 Chapter 4 of the MFMA prescribed that an annual budget may only be funded from realistically anticipated revenues collected.

The following aspects were taken into account when the budget was compiled.

The average payment levels for the past three years were as follows:

2008/2009	87.66%
2009/2010	83.49%
2010/2011	85.28%

Rand Water will increase its tariffs 11.30% for the 2012/2013 financial year.

Escom will increase their tariffs by 13.50% Council can only increase its tariffs by 11.03%%

Operating Revenue Framework

For Merafong City to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Council and continued economic development;
- Efficient revenue management, which aims to ensure a 87.5 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Council.

The following table is a summary of the 2012/13MTREF (classified by main revenue source):

Table 2Percentage growth in revenue by main revenue source

Description	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue By Source							
Property rates	78.933	80.774	86.494	86.494	259.017	274.558	291.031
Property rates - penalties & collection charges	3.221	1.809	1.917	1.917	1.955	2.072	2.197
Service charges - electricity revenue	158.090	196.038	196.920	196.920	217.991	231.070	244.934
Service charges - water revenue	199.372	229.892	222.588	222.588	227.562	241.216	255.689
Service charges - sanitation revenue	19.696	27.003	23.003	23.003	30.249	32.064	33.987
Service charges - refuse revenue	25.064	28.433	30.133	30.133	34.623	36.700	38.902
Service charges - other	727	372	589	589	648	687	728
Rental of facilities and equipment	824	687	787	787	681	722	765
Interest earned - external investments	15.178	17.085	14.450	14.450	16.942	17.959	19.036
Interest earned - outstanding debtors	12.010	10.851	16.975	16.975	19.358	20.519	21.750
Dividends received	–	–	–	–	–	–	–
Fines	1.516	1.966	5.360	5.360	5.682	6.023	6.384
Licenses and permits	9.823	28.831	31.955	31.955	33.808	35.105	38.059
Agency services	–	–	–	–	–	–	–
Transfers recognised - operational	158.120	513.194	300.180	300.180	312.195	201.581	216.364
Other revenue	5.779	4.635	11.053	11.053	9.665	14.398	11.725
Gains on disposal of PPE	–	–	–	–			
Total Revenue (excluding capital transfers and contributions)	688.353	1.141.571	942.404	942.404	1.170.375	1.114.672	1.181.552

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

1.1 Assessment Rates

Council will implement the second valuation roll as determined by the Municipal Property rates Act in the next financial year.

Council approved the determination date for the valuation roll as the 01st July 2012 and an extensive valuation process was undertaken in order to ensure that Council will have a complete valuation roll valid from July 2012 until June 2016. The valuation roll was received on the 31st January 2012 in the presence of officials from the Gauteng Department of Local Government and Housing.

Public notices were published in the Provincial Gazette and newspapers and every property owner was served with a notice detailing the market value of their property as well as the objection process to be followed. The valuation roll was open for inspection and objection to the roll and objections could have been lodged until the 13th April 2012.

Council received in excess of 3000 objections and is dealt with in terms of the Local Government Municipal Property Rates Act.

The value of the new valuation roll is 131% higher than the valuation roll of 2007.

This had resulted in that the tariffs had to be restructured.

1.2 Electricity sales

On 09 March 2012, the National Energy Regulator of South Africa (NERSA or 'the Energy Regulator') decided as follows:

1. That a guideline increase of 11.03% be approved for the 2012/13 municipal tariff review process. The guideline increase is based on the following assumptions:

1.1 bulk purchases have been increased by 13.50% in line with Eskom's tariff increase to municipalities;

Municipalities applying for an increase that is above the guideline will have to justify their increases to the Energy Regulator.

An application was submitted to NERSA for approvalin line with the prescribed increase of 11.03%. NERSA had considered council's application and amendments to the tariffs were approved. The average increase approved by NERSA is 13.33%, which is above the approved 11.03%.

1.3 Water and Sanitation Sales

Rand Water had advised council that they will increase their water tariffs to municipalities by 11.30% from the 1 July 2012.

An availability charge will be levied for all consumersfor sanitation in the 2012/2013 financial year. The availability charge will be in line with the basic charge as per council's tariff policy. Further council will for the 2012/2013 financial year implement block tariffs for sanitation. This will be in line with water.

National Treasury are reminding municipalities to review the level and structure of their water and sanitation tariffs carefully with a view to ensuring: Water and sanitation tariffs are on aggregate fully cost-reflective – including the bulk cost of water, the cost of maintenance and renewal of purification/treatment plants and network infrastructure, and the cost of new infrastructure; Water and sanitation tariffs are structured to protect basic levels of service; andWater and sanitation tariffs are designed to encourage efficient and sustainable consumption (e.g. through inclining block tariffs).

Councils water tariffs are fully cost reflective and do protect basic level of services.

National Treasury advised councils that to mitigate the need for water tariff increases, municipalities must put in place an appropriate strategy to limit water losses to acceptable levels. In this regard municipalities must ensure that water used by its own operations is charged to the relevant service, and not simply attributed to water 'losses'.

A water loss management strategy is approved and will be implemented during the 2013/2013 financial year. Water used by council own properties are levied and do not form part of unaccounted for water.

Council had implemented block tariffs and is structured to encourage efficient and sustainable consumption.

Council had received a grant from the department of Water and Forestry's to roll out the strategies in the water loss management strategy.

1.4 Refuse removal

Merafong tariff increases are not In line with the requirement from National Treasury of 6% and will increased by 10%. This was to ensure that solid waste tariffs cover the cost of providing the different components of the service.

National Treasury prescribed the following: tariffs for solid waste management must take into account that councils must maintain a cash-backed reserve to cover the future costs of rehabilitating landfill sites. They further encouraged municipalities to explore alternative methodologies to manage solid waste, including recycling and incineration in plants that use the heat energy to generate electricity.

Council are providing for the rehabilitation of the landfill site and are provided for in the tariffs.A provision for the rehabilitation of the land fill site in terms of GRAP 19 is in place and backed by cash reserves.

1.5 Conditional Grants transferred in terms of DORA

The following allocations in terms of the Division of Revenue Act are allocated to council for the three financial years in terms of the Act.

Section 216 of the Constitution provides for national government to transfer resources to municipalities in terms of the annual Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their functions.

GT484 Merafong City - Supporting Table SA18 Transfers and grant receipts							
Description	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
RECEIPTS:							
–							
Operating Transfers and Grants							
National Government:	149.007	170.118	161.747	161.747	190.108	201.581	216.364
Local Government Equitable Share	147.257	167.868	159.497	159.497	185.846	199.081	213.914
Finance Management	1.000	1.250	1.250	1.250	1.500	1.500	1.450
Municipal Systems Improvement	750	1.000	1.000	1.000	1.000	1.000	1.000
EPWP Incentive	–	–	–	–	1.762	–	–
Provincial Government:	60.322	256.780	142.275	142.275	122.087	–	–
Housing	53.822	256.780	142.275	142.275	118.277	–	–
Department of Sports, arts, culture and recreation	6.500	–	–	–	3.810	–	–
District Municipality:	100	–	–	–	–	–	–
HIV Programme	100	–	–	–	–	–	–
Total Operating Transfers and Grants	209.429	426.898	304.022	304.022	312.195	201.581	216.364

Finance Management Grant

Purpose

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

Municipal Systems Improvement Grant

Purpose

To assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems.

Expanded Public Works Programme Incentive Grant

Purpose

To incentives municipalities to increase labour intensive employment through infrastructure programmes that maximise job creation and skills development in line with the Expanded Public Works Programme guidelines

It is important that all these transfers are made transparently, and properly captured in municipalities' budgets. In this regard, regulation 10 of the Municipal Budget and Reporting Regulations provides guidance on when municipalities should reflect a transfer on their budgets.

EXPENDITURE

Description	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Expenditure By Type							
Employee related costs	211.537	230.639	226.787	226.787	296.627	314.424	333.290
Remuneration of councillors	13.779	14.900	14.725	14.725	15.309	16.227	17.201
Debt impairment	75.538	69.760	69.379	69.379	90.603	96.040	101.802
Depreciation & asset impairment	82.142	90.100	90.100	90.100	95.506	101.236	107.311
Finance charges	8.568	22.051	10.269	10.269	15.797	16.745	17.750
Bulk purchases	227.648	271.926	273.099	273.099	307.103	325.529	345.061
Other materials	–						
Contracted services	36.344	37.112	51.884	51.884	56.893	60.307	63.926
Transfers and grants	55.614	272.790	150.251	150.251	148.368	31.896	33.810
Other expenditure	119.881	208.613	132.232	132.232	172.012	177.032	187.654
Loss on disposal of PPE	–	–	–	–	–	–	–
Total Expenditure	831.051	1.217.891	1.018.724	1.018.724	1.198.218	1.139.437	1.207.804
Surplus/(Deficit)	(142.698)	(76.320)	(76.320)	(76.320)	(27.844)	(24.766)	(26.251)
Transfers recognised - capital	95.323	114.402	203.648	203.648	246.687	75.967	83.148
Contributions recognised - capital	54.401	–	–	–	5.000	–	–
Contributed assets	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	7.026	38.082	127.327	127.327	223.843	51.202	56.896
Surplus/(Deficit) for the year	7.026	38.082	127.327	127.327	223.843	51.202	56.896

2 Expenditure

2.1 Salaries and Allowances

National Treasury advised councils that the period of the Salary and Wage Collective Agreement 2009/10 to 2011/2012 has come toan end. In the absence of other information from the South African Local GovernmentBargaining Council, municipalities are advised to budget for a 5 per cent cost-of-living increaseadjustment, to be implemented with effect from July 2012 (in-line with the increase proposedin the 2012 MTBPS).

Council had decided that in view of the salary negotiations not to budget for a 5% increase but rather prime plus 2%. If the increases approved are below councils provision it will be adjusted during the adjustment budget in January 2013. If council provided for to a low increase and the increases approve are higher it will have a negative impact on councils cash flow.

National Treasury requires that municipalities should not just employ more people without any reference to the level of staffing required to deliver effective services, and what is financially sustainable over the medium term.

Additional funding was made available to fund additional vacancies. The departments had requested additional positions to be filled in the 2012/2013 financial year.

Summary of Personnel Numbers	2010/11		Current Year 2011/12		Budget Year 2012/13	
Number	Positions	Permanent employees	Positions	Permanent employees	Positions	Permanent employees
Municipal Council and Boards of Municipal Entities						
Councillors (Political Office Bearers plus Other Councillors)	52	52	56	56	56	56
Municipal employees						
Municipal Manager and Senior Managers	7	7	7	7	7	7
Other Managers	26	26	26	26	37	36
Professionals	*26*	*23*	*26*	*29*	*38*	*32*
Finance	5	2	5	5	9	7
Spatial/town planning	1	1	1	1	1	1
Information Technology	1	1	1	1	2	2
Roads	1	1	1	1	2	2
Electricity	1	1	1	4	4	4
Water	1	1	1	1	1	1
Sanitation					1	1
Refuse	1	1	1	1	–	–
Other	15	15	15	15	18	14
Technicians	*22*	*21*	*74*	*75*	*90*	*70*
Finance	5	4	5	4	8	6
Spatial/town planning	6	6	6	6	6	6
Information Technology	1	1	1	2	2	2
Roads	1	1	1	2	2	2
Electricity	5	5	5	5	5	5
Water	4	4	4	4	3	3
Sanitation			2	2	2	2
Refuse			2	2	2	2
Other			48	48	60	42
Clerks (Clerical and administrative)	99	99	99	99	110	103
Service and sales workers						
Elementary Occupations	937	937	937	937	1.383	1.215
TOTAL PERSONNEL NUMBERS	1.169	1.165	1.225	1.229	1.721	1.519
% increase			4.8%	5.5%	40.5%	23.6%

As can be seen from the table above the number of employees increase from 1229 in the current year to 1721 in the 2012/2013 financial year.

Council will with the existing employee component not be in a position to execute the capital projects approved by council and rendering normal service delivery functions.

Taken into account the above Council's employee remuneration as a percentage of its total budget is 25.30%, which is well below the norm of 35%. Filling of vacancies were prioritised and the filling of vacancies in service rendering departments received priority.

2.2 Bulk purchases: Electricity

The Eskom price of bulk electricity supplied to municipalities will increase by 13.5 per cent on 1 July 2012. Based on this price increase, and increases in the price of other inputs NERSA has set a guideline increase for municipal tariffs of 11.03 per cent.

2.3 Bulk purchases: Water

Rand Water had advised council that they will increase their water tariffs to municipalities by 11.30% from the 1 July 2012.

2.4 Repairs and Maintenance

Council had concentrate in the previous financial year on the delivery of new infrastructure projects to eradicate backlogs. Due to the financial capacity of council in the previous years, Repairs and Maintenance were neglected. Council cannot continue deliver and install new infrastructure and not maintain the existing infrastructure.

Council's infrastructure is in a dilapidated state. The political unrest in Khutsong did not assist with the limited funds available. Roads need to be resealed and water networks needs to be upgraded. If water networks are not going to be upgraded water losses, will exceed the costs of upgrading.

The rehabilitation of council's assets is the main focus in the 2012/2013 MTREF.

Repairs and maintenance budget will grow by 50% in the current year's budget. Focus was placed this year of renewal of assets.

The growth rate must increase by 20% for the next 2 years to ensure that council will extend the life span of the existing assets and not needs to replace them.

GT484 Merafong City - Supporting Table SA34c Repairs and maintenance expenditure by asset class

Description	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Repairs and maintenance expenditure by Asset Class/Sub-class							
–							
Infrastructure	14.620	17.628	18.687	18.687	30.101	31.907	33.821
Infrastructure - Road transport	3.348	4.535	5.570	5.570	12.104	12.831	13.601
Roads, Pavements & Bridges	3.348	4.535	5.570	5.570	12.104	12.831	13.601
Infrastructure - Electricity	2.340	4.210	2.671	2.671	5.705	6.048	6.411
Transmission & Reticulation	2.340	4.210	2.671	2.671	5.705	6.048	6.411
Infrastructure - Water	2.145	2.050	2.446	2.446	2.991	3.171	3.361
Reticulation	2.145	2.050	2.446	2.446	2.991	3.171	3.361
Infrastructure - Sanitation	5.507	6.562	6.880	6.880	7.956	8.433	8.939
Sewerage purification	5.507	6.562	6.880	6.880	7.956	8.433	8.939
Infrastructure - Other	1.279	271	1.120	1.120	1.344	1.425	1.510
Waste Management	1.279	271	1.120	1.120	1.344	1.425	1.510
Community	3.257	4.289	3.344	3.344	8.033	8.287	8.627
Sports fields& stadia	2.140	1.757	2.424	2.424	5.189	5.453	5.734
Libraries	56	69	–	–	94	100	106
Security and policing	879	1.039	513	513	2.262	2.207	2.220
Cemeteries	50	1.004	44	44	52	55	59
Social rental housing	132	420	364	364	437	472	509
Other	–	–	–	–	–	–	–
Other assets	4.712	6.652	9.497	9.497	9.129	9.692	10.274
Specialised vehicles	–	–	–	–	–	–	–
Plant & equipment	1.203	1.296	885	885	953	1.016	1.078
Civic Land and Buildings	3.509	5.356	8.612	8.612	8.176	8.675	9.196
Total Repairs and Maintenance Expenditure	22.589	28.568	31.528	31.528	47.264	49.885	52.722
R&M as a % of PPE	*0.9%*	*1.1%*	*1.2%*	*1.2%*	*1.7%*	*1.8%*	*1.9%*
R&M as % Operating Expenditure	*2.7%*	*2.3%*	*3.1%*	*3.1%*	*3.9%*	*4.4%*	*4.4%*

2.5 Capital Expenditure from own Revenue

In the past the biggest challenge that council faced was that MIG only funded certain projects. Local Economic Development projects could not be funded.Available funding to fund projects that were not funded through grants was a major challenge.

Council's roll of an enabler must support meaningful local economic development (LED) initiatives that foster micro and small business opportunities and job creation.

Council must ensure that the initiatives identified in the growth and development strategy must be rolled out in the next 3 financial years.

Capital funded from revenue increase from R13.9 Million in 2011/2012 to R47.226 Million in the 2012/2013 financial year.

2.6 Transfer to Provision for bad debt

The large increases and changes in property rates, and the change of the local economic conditions such as the down turn in the property market, trends in household incomes and unemployment were counterproductive, resulting in higher levels of non-payment and increased bad debts.

Council's average payment levels for the past ten months were 85%. Council budgeted for a payment level of 87.50% for the financial year.

The biggest concern is the non - payment by Blyvooruitzicht mine on a portion of their water account. This matter was referred to the High Court. The High Court had found in favour off Council but Blyvooruitzicht had appealed against the judgment. Council awaits a date for the case to be heard in the Appeal Court.

The department had commenced with an outreach program to promote the payment of services. Council had commenced with serious credit control actions in all areas of Merafong. This was communicated to the community and ward committees during the budget consultation program.

A revenue enhancement strategy was developed and the roll out plan has commenced. A no tolerance approach in terms of council's credit control policy will be enforced on non-indigent defaulters.

The pay points are addressed and the demarcation issue is no longer applicable.

3 Capital Budget 2012/2013

3.1 Conditional Grants transferred in terms of DORA

The following allocations in terms of the Division of Revenue Act are allocated to council for the three financial years in terms of the Act to execute capital programs.

GT484 Merafong City - Supporting Table SA18 Transfers and grant receipts							
Description	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Capital Transfers and Grants							
National Government:	71.052	69.537	69.537	69.537	89.163	78.233	82.756
Municipal Infrastructure Grant (MIG)	52.252	61.137	61.137	61.137	74.163	78.233	82.756
National Electrification Programme	18.800	8.400	8.400	8.400	15.000	–	–
Provincial Government:	100.000	–	100.000	100.000	–	–	–
Human Settlement Grant	100.000		100.000	100.000	–	–	–
Total Capital Transfers and Grants	171.052	70.100	169.537	169.537	89.163	78.233	82.756

Section 19 of the MFMA must be taken into consideration, when the capital budget is compiled.

MIG Grants

The MIG grants should be seen as providing supplementary funding for the municipality’s three-year capital budget, in order to assist the municipality to address infrastructure backlogs for the delivery of essential services to poor households. The grant could be used to rehabilitate existing township infrastructure, upgrade streets, repair water systems to eliminate wastage, improve electricity infrastructure, and to support the national housing programme through the provision of bulk and municipal infrastructure.

3.2 External loans

Council could not secure grants to implement LED projects. Council will have to secure R4 000 000 to finance one LED project in the 2012/2013financial year and R18 000 000 for bulk electricity projects.

3.3 Finance leases

Council’s full maintenance lease agreement in terms of vehicles expires on the 30 October 2011. The contract was extended for a further 12 months. Council has appointed a new service provider. The roll out will commence in the first part of the financial year. The financial implication will not material change from the existing service provider and will have no impact on the 2012/2013 budget.

GT484 Merafong City - Supporting Table SA17 Borrowing

Borrowing - Categorised by type	2010/11	Current Year 2011/12		2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Parent municipality						
Long-Term Loans (annuity/reducing balance)	40.076	42.793	26.687	103.802	116.783	107.622
Long-Term Loans (non-annuity)						
Local registered stock						
Instalment Credit						
Financial Leases	24.372	13.438	21.184	15.446	9.709	3.972
Municipality sub-total	64.448	56.231	47.871	119.249	126.492	111.594
Total Borrowing	64.448	56.231	47.871	119.249	126.492	111.594

4 Tariff Implications

The abnormal increases in tariffs by Escom and Rand Water will result that tariff increases will be between (0.08%) for small consumers and 2.4% for large consumers.

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework			
Rand/cent	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13 % incr.	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Monthly Account for Household - 'Middle Income Range' Rates and services charges:										
Property rates	508.61	549.71	582.70	617.68	617.68	617.68	(22.9%)	476.25	504.83	535.11
Electricity: Basic levy	28.11	37.67	43.44	43.44	43.44	43.44	11.0%	48.23	57.88	69.46
Electricity: Consumption	450.80	693.80	751.50	938.15	938.15	938.15	11.1%	1.041.85	1.250.21	1.500.26
Water: Basic levy										
Water: Consumption	166.80	180.45	195.30	211.50	211.50	211.50	13.1%	239.15	271.43	308.08
Sanitation	82.80	89.40	94.80	100.50	100.50	100.50	27.4%	128.00	135.68	143.85
Refuse removal	60.36	65.19	69.10	75.00	75.00	75.00	10.0%	82.50	87.45	92.70
Other										
sub-total	1.297.48	1.616.22	1.736.84	1.986.27	1.986.27	1.986.27	1.5%	2.015.98	2.307.48	2.649.45
VAT on Services	109.83	149.15		179.28	179.28	179.28	12.4%	201.50	235.50	275.75
Total large household bill:	1.407.31	1.765.38	1.736.84	2.165.56	2.165.56	2.165.56	2.4%	2.217.47	2.542.98	2.925.21
% increase/-decrease		25.4%	(1.6%)	24.7%	–	–		2.4%	14.7%	15.0%

–

<u>Monthly Account for Household - 'Affordable Range'</u> Rates and services charges:										
Property rates	360.11	389.21	412.57	437.34	437.34	437.34	(25.4%)	326.25	345.83	366.57
Electricity: Basic levy	28.11	37.67	43.44	43.44	43.44	43.44	11.0%	48.23	57.88	69.46
Electricity: Consumption	224.50	345.51	373.00	434.65	434.65	434.65	10.0%	478.04	573.65	688.38
Water: Basic levy										
Water: Consumption	136.50	147.10	158.65	171.15	171.15	171.15	13.0%	193.35	219.45	249.08
Sanitation	69.00	74.50	78.90	83.75	83.75	83.75	31.0%	109.75	116.34	123.34
Refuse removal	60.36	65.19	69.10	75.00	75.00	75.00	10.0%	82.50	87.45	92.70
Other										
sub-total	878.58	1.059.18	1.135.66	1.245.33	1.245.33	1.245.33	(0.6%)	1.238.13	1.400.60	1.589.53
VAT on Services	71.97	93.64		104.79	104.79	104.79	8.0%	113.16	130.27	150.34
Total small household bill:	950.55	1.152.82	1.135.66	1.350.12	1.350.12	1.350.12	0.1%	1.351.29	1.530.87	1.739.87
% increase/-decrease		21.3%	(1.5%)	18.9%	–	–		0.1%	13.3%	13.7%
_			-1.07	- 13.68	-1.00	-				
<u>Monthly Account for Household - 'Indigent' Household receiving free basic services</u> Rates and services charges:										
Property rates	211.61	228.71	242.44	256.99	256.99	256.99	(31.4%)	176.25	186.83	198.03
Electricity: Basic levy	28.11	37.67	43.44	43.44	43.44	43.44	11.0%	48.23	57.88	69.46
Electricity: Consumption	133.43	178.80	187.50	209.15	209.15	209.15	8.5%	227.02	272.43	326.91
Water: Basic levy										
Water: Consumption	30.36	32.16	79.66	84.42	84.42	84.42	12.5%	94.97	107.79	122.35
Sanitation	16.56	74.50	63.20	67.00	67.00	67.00	36.6%	91.50	96.99	102.84
Refuse removal	60.36	65.19	69.10	75.00	75.00	75.00	10.0%	82.50	87.45	92.70
Other										
sub-total	480.43	617.03	685.34	736.00	736.00	736.00	(2.1%)	720.48	809.37	912.29
VAT on Services	22.13	35.00		67.06	67.06	67.06	13.6%	76.19	87.16	100.00
Total small household bill:	502.56	652.04	685.34	803.07	803.07	803.07	(0.8%)	796.67	896.52	1.012.28
% increase/-decrease		29.7%	5.1%	17.2%	–	–		(0.8%)	12.5%	12.9%
_										

5 Conclusion

The percentage increases of both Eskom and Rand Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, these tariffs are largely outside the control of the Council. Discounting the impact of these price increases in lower consumer tariffs will erode the Council future financial position and viability

The large increases and changes in property rates, and the change of the local economic conditions such as the down turn in the property market, trends in household incomes and unemployment are counterproductive, resulting in higher levels of non-payment and increased bad debts.

Council will with the existing employee component not be in a position to execute the capital projects approved by council and rendering normal service delivery functions.

Council's employee remuneration as a percentage of its total budget is 25.30%, which is well below the norm of 35%. Filling of vacancies were prioritised and the filling of vacancies in service rendering departments received priority.

The rehabilitation of council's assets is the main focus in the 2012/2013 MTREF.

Repairs and maintenance budget will grow by 50% in the current year's budget. Focus was placed this year of renewal of assets.

The effective implementation of the credit control policy of council remains a challenge. Credit control will be rolled out to all areas within Merafong.

The management of indigents remains the biggest challenge. The identification of indigents and the curtailing of their services within the limits of the subsidy are off utmost importance.

In the past the biggest challenge that council faced was that MIG only funded certain projects. Local Economic Development projects could not be funded. Surplus funds were allocated to fund projects that cannot be funded through grants.

CHAPTER 2

BUDGET TABLES

CHAPTER 3

OVERVIEW OF ANNUAL BUDGET PROCESS

The Executive Mayor tabled the Key Deadlines in terms of section 21(1)(b) during August 2011.

Subsequent to the above a budget steering committee was established in terms of Regulation 393. The committee is chaired by the portfolio head of finance.

A medium term expenditure framework was compiled, discussed and recommended by the Budget steering Committee during February 2012.

The needs of the communities, backlogs as identified by the departments, priorities as identified in the Municipal Turn Around strategy was the basis of the medium term expenditure framework for 2012/2013 to 2014/2015.

The budget was tabled to council during March 2012.

During the tabling of the budget the council tabled the consultative process where the budget was taken to the communities for their inputs.

Inputs from the community were taken into account to finalise the budget.

CHAPTER 4

Alignment of Annual Budget with Integrated Development Plan

The strategy was developed at the three-day executive leadership workshop held on 25 – 26 August 2011 at Shumba Valley Lodge and on 21 September 2011 in house. Members of the mayoral committee, councillors, senior management and labour representatives attended the workshop.

The purpose of the workshop was to review the 2020 vision strategy and to align the Merafong strategic plan with the 2016 Uni-city strategic plan. The review process entailed the review of the 2011/12 approved SDBIP in line with the new targets set during the strategic review.

The purpose of the strategic planning session was to achieve the following outputs:

- Business Definition
  - Vision
  - Mission
  - Strategic goals and objectives framework
  - Core business values
  - Stakeholder framework
- SWOT Analysis
- Targets
- Strategic Action Plan
- High level organisational design

Linkage with national, provincial and government manifesto priorities.

The approach followed was output-orientated and participative by nature. The input of various key stakeholders, administrative and political was gathered and documented in a facilitated workshop approach.

The needs of the communities, backlogs as identified by the departments, priorities as identified in the Strategic Review process was the basis of the medium term expenditure framework for 2012/2013 to 2014/2015.

The IDP outlines Various **PLANS**; which respond to Merafong vision and values; thereby directing strategic focus areas; key programmes and strategic projects that link to the Council's capital and operating budget.

CHAPTER 5

Measurable Performance Objectives and Indicators

Measures of financial performance

	Merafong Target	Benchmark
Current Ratio	1:1	2:1
Outstanding Debtors to Revenue	12%	8.3%
Creditors System Efficiency	30 Days	30 Days
Employee costs	35%	35%
Annual Collection Rate	87.5%	90%
Total Debt to Annual Operating Revenue	45%	45%
Cost coverage	1	0.8

Description of Financial Indicator	Basis of Calculation	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
Current Ratio	Current assets/current liabilities	1:0	0.8:1	1.1	1.4	1.8
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	27%	23.4%	16.8%	15.6%	14.8%
Creditors System Efficiency	% of Creditors Paid Within Terms (withinMFMA' s 65(e))	30 Days	30 Days	30 Days	30 Days	30 Days
Annual Collection Rate	Last 12 MThs Receipts/Last 12 MThs Billing	83%	83.49%	87.5%	88%	89%
Total Debt to Annual Operating Revenue	Total outstanding service debtors/annual revenue received for services	19%	20%	30%	29.1%	30.7%

Employee costs	Employee costs/(Total Revenue - capital revenue)	30.7%	24.1%	25.3%	28.2%	28.2%
Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	4.8	3.1	3.3	3.7	3.8

Current ratio

Current ratio measures the ability of the Municipality to pay its current liabilities out of the current assets. The industry usually looks for a ratio of 2:1, however the acceptable current ratio is1:1 for municipalities.

The current ratio is 1:1 which means that the Municipality will be able to meet its shortterm obligation if the trend continues..

Outstanding debtors to Revenue

This ratio gives an indication of how liquid customer's debtors are. The benchmark is 8.3%. The benchmark is exceeded. The municipality needs to look at ways of improving their credit control. The average for the Municipality for the past two years was 27% and 23.4% respectively.

Creditors System Efficiency

The ratio gives an indication of average creditor's payment period. The benchmark is 30 Days and is a contravention of Section 65(2) (e) if creditors are not paid in 30 days

Employee costs

The ratio indicates a percentage of salary costs to total expenditure and this ratio could illustrate the risk of salary costs being unmanageable.

Employee costs totalled 25.3% of the total expenditure for the 2012/13 financial year. Thisratio is maintained within the limit of 35 %.

Cost coverage

This ratio indicates the availability of cash plus short term investments to cover the monthly fixed operating expenditure.

GT484 Merafong City - Table A7 Budgeted Cash Flows

Description	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
CASH FLOW FROM OPERATING ACTIVITIES							
Receipts							
Ratepayers and other	443.327	591.769	622.453	622.454	749.879	787.618	834.874
Government - operating	330.100	368.083	359.331	359.331	312.195	201.581	216.364
Government - capital	95.323	114.402	203.648	203.648	246.687	75.967	83.148
Interest	27.188	27.936	31.425	31.425	16.942	17.959	19.036
Dividends		–	–	–	–	–	–
Payments							
Suppliers and employees	(736.655)	(687.839)	(827.255)	(827.255)	(797.413)	(870.063)	(943.076)
Finance charges	(8.156)	(22.051)	(10.269)	(10.269)	(15.797)	(16.745)	(17.750)
Transfers and Grants		(272.790)	(150.251)	(150.251)	(148.368)	(31.896)	(33.810)
NET CASH FROM/(USED) OPERATING ACTIVITIES	151.127	119.510	229.081	229.082	364.125	164.421	158.787
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
Proceeds on disposal of PPE	8.990	–	–	–	–	–	–
Decrease (increase) in non-current investments	666	3.264	471	471	471	471	471
Payments							
Capital assets	(114.496)	(209.902)	(304.893)	(304.893)	(320.913)	(144.397)	(113.648)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(104.839)	(206.638)	(304.421)	(304.422)	(320.442)	(143.926)	(113.177)
CASH FLOWS FROM FINANCING ACTIVITIES							
Receipts							
Short term loans		–	–	–	–	–	–
Borrowing long term/refinancing		22.476	22.476	22.476	22.000	5.000	–
Increase (decrease) in consumer deposits		580	580	580	410	426	443
Payments							
Repayment of borrowing	(12.840)	–	–	–	(10.651)	(10.651)	(12.389)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(12.840)	23.056	23.056	23.055	11.759	(5.225)	(11.946)
NET INCREASE/ (DECREASE) IN CASH HELD	33.447	(64.072)	(52.285)	(52.285)	55.441	15.270	33.665
Cash/cash equivalents at the year begin:	245.490	278.937	278.937	278.937	226.653	282.094	297.364
Cash/cash equivalents at the year end:	278.937	214.865	226.653	226.653	282.094	297.364	331.029

Council has sufficient cash to cover current liabilities.

CHAPTER 6

Overview of Budget related policies

Budgeting is central to the process of prioritizing for service delivery and the management of the functions of Council. The Municipality's budgeting process is guided and governed by relevant legislation and budget related polices.

Council had in terms of Regulation 7 and 8 of Local Government Gazette 32141 reviewedthe budget related policies and bylaws for Merafong Local Council.

The following policies are amended or are new policies that need to be adopted by Council.

The policies were submitted to Management for their inputs. The policies were workshopped with council and were work shopped with the community during the budget consultation process.

The following are the key policies that affect or are affected by the annual budget that needs to be reviewed and amended if necessary.

Tariff Policy

The Municipal Systems Act, Act 32 of 2000, requires a municipality to have a tariff determination policy.

The challenge in setting tariffs lies in striking a balance between maintaining financial sustainability of the relevant departments and entities (and so sustainability of service provision) and ensuring affordability of those services by consumers.

The Municipality Tariff Policy provides a broad framework within which Council can determine fair, transparent and affordable service charges that also promote sustainability of service provision.

This policy is based on principles that address the social, economic and financial imperatives that the process of tariff setting should take account of. In addition to the policy, and for operational purposes, tariff setting methodologies have been developed for the various departments and entities involved in trading services. The methodology specifies the procedure that departments and municipal entities should follow in determining their tariff increases:

Property Rates Policy

The Municipality has revised its Rates Policy as per the legislative requirements. The new policy provides that properties be rated based on the value of their land and improvements. Sectional title owners will also be drawn into the rates base. A new valuation roll is accordingly in place. The first Rates Policy and General Valuation Roll in terms of the Municipal Property Rates Act (MPRA) was implemented by the Municipality on the 01st July 2008.

The policy is designed to ensure equitable treatment by Council in the levying of rates on property owners, including owners under sectional title, as well as other persons who may become liable for the payment of rates. This will affect the rates payable by the Municipality's property owners, and ultimately impact on the Municipality's own revenue stream.

Credit Control and Debt Collections Policy

The Municipalities Credit Control and Debt Collection Policy provides the procedures and mechanisms for credit control and for the collection of debts. The primary objective of this policy is to ensure that all monies due and payable to the Municipality in respect of rates, fees for services, surcharges on such fees, charges, tariffs, interest which has accrued on any amounts due and payable in respect of the foregoing and any collection charges are collected efficiently and promptly.

Indigent and Free Basic Services Subsidies Policy

Council had adopt an Indigent and Free Basic Services Subsidy Policy, which embodies and provide procedures and guidelines for the subsidization of basic services and tariff charges to indigent households in its municipal area.

The object of the Indigent and Free Basic Services Subsidy Policy is to ensure:

(a) The provision of basic services to the community in a sustainable manner within the financial and administrative capacity of the Municipality of the Council; and

(b) The provision of procedures and guidelines for the subsidisation of basic service charges to indigent households.

Debt Write Off Policy

This policy serves to assist management and officials of the municipality to implement and maintain consistent, efficient and effective bad debts management principles. This policy will also assist management to run the municipality in a cost effective manner and yet achieving high levels of revenue collection. The policy also seeks to mitigate the risk of fraudulent writing off of fictitious bad debts.

PURPOSE

- To ensure that bad debt write-offs are authorized at appropriate levels.
- To ensure that only bona fide bad debts are written off.
- To ensure firmness in writing off bad debts.
- To ensure that debt collection is effective and efficient.
- To ensure that bad debts are kept within reasonable proportions.
- To ensure that the estimated loss resulting from bad debts is provided for during the same period that the income to which it is related is earned, and
- To ensure that the outstanding debtors appear in the monthly balance sheet at net realizable value, since the provision is deducted from the gross amount of the debtors.

Supply Chain Management Policy

Municipalities are required in terms of section 111 of the MFMA to have a supply chain management policy.

The Municipality has an approved Supply Chain Management Policy, within the framework of the relevant legislation and regulations. The policy ascribes to the following principles:

A procurement system which is fair, equitable, transparent, competitive and cost- effective in terms of Section 217 of the Constitution of South Africa No 108 of 1996;

- As enshrined in Chapter 11 of the Municipal Finance Management Act and its regulations;
- Best practices in supply chain management;
- Uniformity in supply chain management systems between organs of state in all spheres;
- Broad Based Black Economic Empowerment.

Additional Policies

- Asset Management Policy
- Cash Management, Disposal and Borrowing Policy
- Funding and Reserve Policy

Bylaws

- Property Rates
- Tariffs
- Credit Control and Collections
- Indigent and Free Basic Services Subsidies

CHAPTER 7

Overview of Budget Assumptions

The 2012/13 – 2014/15 Medium Term Budget has been prepared within a highly volatile and highly uncertain economic environment, making the budgeting process even more challenging.

Drastic changes have occurred within the global and domestic economy in the past two years, and these changes had a profound impact on the assumptions drawn to prepare the budget.

The following aspects were taken into account in the preparation of the 2012/13 – 2014/15 Medium Term Budget.

<u>National Outcomes</u>

In January 2010, Cabinet adopted 12 outcomes within which to frame public-service deliverypriorities and targets. Cabinet ministers have signed performance agreements linked to theseoutcomes. More detailed delivery agreements have since been developed to extend targetsand responsibilities to national and provincial departments, agencies and municipalities.

All municipalities are expected to take the 12 outcomes into consideration when reviewingtheir IDPs and developing their annual budgets for the 2012/13 MTREF.

The percentage increases of both Eskom and Rand Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, these tariffs are largely outside the control of the Council. Discounting the impact of these price increases in lower consumer tariffs will erode the Council future financial position and viability

The large increases and changes in property rates, and the change of the local economic conditions such as the down turn in the property market, trends in household incomes and unemployment are counterproductive, resulting in higher levels of non-payment and increased bad debts.

Council will with the existing employee component not be in a position to execute the capital projects approved by council and rendering normal service delivery functions.

Council's employee remuneration as a percentage of its total budget is 25.30%, which is well below the norm of 35%. Filling of vacancies were prioritised and the filling of vacancies in service rendering departments received priority.

The rehabilitation of council's assets is the main focus in the 2012/2013 MTREF.
Repairs and maintenance budget will grow by 50% in the current year's budget. Focus was placed this year of renewal of assets.

The effective implementation of the credit control policy of council remains a challenge. Credit control will be rolled out to all areas within Merafong.

The management of indigents remains the biggest challenge. The identification of indigents and the curtailing of their services within the limits of the subsidy are off utmost importance.

In the past the biggest challenge that council faced was that MIG only funded certain projects. Local Economic Development projects could not be funded. Surplus funds were allocated to fund projects that cannot be funded through grants.

Headline inflation forecasts

Municipalities must take the following inflation forecasts into consideration when preparing their budgets for 2012/13 and MTREF

Fiscal Year	2010/2011 Actual	2011/2012 Estimate	2012/2013 Forecasts	2013/2014 Forecasts	2014/2015 Forecasts
Headline CPI Inflation	3.8%	5.7%	5.9%	5.3%	4.9%

Source: Budget Review 2012

The period of the *Salary and Wage Collective Agreement 2009/10 to 2011/2012* has come to an end. In the absence of other information from the South African Local Government Bargaining Council, municipalities are advised to budget for a 5 per cent cost-of-living increase adjustment, to be implemented with effect from July 2012 (in-line with the increase proposed in the 2012 MTBPS).

Summary of budget assumptions

For the 2012/2013 financial year the Council, from the outset, based the guideline on the growth rates on 6% of the original budgeted amounts submitted to National Treasury for the 2011/2012 financial year. This was in line with the Reserve Banks inflation targets. However, during the 2012/2013 budgeting process, the main objective of the Council was to adhere to the prerequisite from National Treasury that Municipalities must pass budgets that are balanced and cash funded.

The Bulk Electricity increase approved by NERSA and the determination of tariffs for municipalities by NERSA

Planned Financing

Operational Budget for the 2012/2013 to 2014/2015 Financial Years

The Operational Budget for the 2012/2013 financial years was, to a certain extent, prepared on the zero-base principle. Each line item was compiled from current financial information.

In terms of the multi-year budget process the projections for the 2012/2013to 2014/2015 financial years have been prepared on incremental bases, with adjustments for known variances.

The growth guidelines, which are in line with the Reserve Banks inflation targets, were used. Growth limits of 6% and 6% were used for the 2012/2013 and 2013/2014 budgets respectively where applicable.

The table below gives a summary of the assumptions used to prepare this medium term budget, also showing changes in these assumptions from the previous year:

Indicator	2012/2013	2013/2014	2014/2015
CPI Inflation	5.9%	5.3%	4.9%
Electricity Bulk Purchases	13.5%	13.5%	13.5%
Water Bulk Purchases	11.3%	13.5%	13.5%
Salary Increases	8.0%	8%	8%
Repairs and Maintenance	50%	20%	20%
Tariff Increases			
Electricity	11.03%	20.0%	20.0%
Water	13.50%	13.50%	13.50%
Refuse	6%	6%	6%
Sewerage	10%	6%	6%
Assessment Rates	-16%	6%	6%

CHAPTER 8

Overview of Budget Funding

The long-term financial plan is part of the on-going financial planning and medium-term budgeting processes. The long-term financial plan aims to ensure that the Municipality is in a sound financial condition and can finance services on a sustainable basis on the long-term. The medium-term budget represents a detailed three-year operating and capital budget that enables the Municipality to meet its operational and strategic objectives for the three years and in the outer years.

Financial sustainability means that future generations will not be burdened with paying for services that today's taxpayers enjoy. While some expenses do not have to be paid immediately, the Municipality still must have the ability to pay them in the future.

The long-term financial plan was reviewed and updated as part of the budget and IDP cycle for 2012/2013. The long-term financial plan uses economic, financial, policy assumptions and the expenditure outlook to project expenses, revenue and changes in the balance sheet. At this stage the first three years agrees with the tabled budget and the outer years are projected.

Description	2012/13 Medium Term Revenue & Expenditure Framework		
	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
High Level Outcome of Funding Compliance			
Total Operating Revenue	1.170.375	1.114.672	1.181.552
Total Operating Expenditure	1.198.218	1.139.437	1.207.804
Surplus/(Deficit) Budgeted Operating Statement	(27.844)	(24.766)	(26.251)
Surplus/(Deficit) Considering Reserves and Cash Backing	101.570	205.793	302.250
MTREF Funded (1) / Unfunded (0)	1	1	1
MTREF Funded ✓ / Unfunded ✗	✓	✓	✓

Key assumptions

To be able to produce a meaningful financial plan, a number of assumptions have to be made and regularly kept under review. Economic factors such as inflation and interest rates have an impact on projected long-term financial position.

For the 2012/13 budget the council has assumed an expenditure growth of 21%, 10% for 2013/14 and 11% for 2014/2015.

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- Salaries increases are assumed at 8.0%, and 6% for the outer years.
- Repairs and maintenance is assumed to increase by 50% for 2012/2013 and 20% for the outer years. (to avoid the danger of allowing the value of the assets to deteriorate resulting in higher rehabilitation costs in future). This should be compensated by identifying savings on other general expenditure items.
- Other expenditure increases are limited to budget allocations.
- Depreciation is calculated using the average life of assets.
- Interest on borrowing is calculated based on the capital investment programme.

- The financial plan assumes that the expenditure will grow at a level lower that the revenue to ensure that surplus cash is created to fund the capital expenditure in the outer years.

GT484 Merafong City Supporting Table SA10
Funding measurement

Description	MFMA section	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Funding measures	–							
Cash/cash equivalents at the year end - R'000	18(1)b	278.937	214.865	226.653	226.653	282.094	297.364	331.029
Cash + investments at the yr end less applications - R'000	18(1)b	77.149	8.627	12.039	12.039	129.414	230.559	328.502
Cash year end/monthly employee/supplier payments	18(1)b	4.8	2.4	3.1	3.1	3.3	3.7	3.8
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	7.026	38.082	127.327	127.327	223.843	51.202	56.896
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	15.5%	12.3%	12.3%	12.3%	11.7%	11.7%	11.7%
Capital payments % of capital expenditure	18(1)c;19	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	0.0%	23.5%	22.2%	22.2%	29.6%	7.3%	0.0%
Grants % of Govt. legislated/gazetted allocations	18(1)a					0.0%	0.0%	0.0%
Current consumer debtors % change - incr(decr)	18(1)a	2.5%	0.5%	0.0%	0.0%	(1.2%)	(1.7%)	0.5%
Long term receivables % change - incr(decr)	18(1)a	0.0%	0.0%	0.0%	0.0%	(8.1%)	0.0%	0.0%
R&M % of Property Plant & Equipment	20(1)(vi)	0.9%	1.1%	1.2%	1.2%	1.7%	1.8%	1.9%
Asset renewal % of capital budget	20(1)(vi)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Level of capital spending

The appropriate levels of capital expenditure and borrowing are based on the principles of affordability, prudence and sustainability (debt ratio's and the impact or return of the capital investment on the operating budget).

Prudential Indicators

- Debt to equity
- Debt to revenue
- Liquidity (Current Ratio)
- Operating surplus

Capital investment programme

The Council tables a capital budget totalling R320 Million for the 2012/2013 financial year. The table bellows indicates the projections for the current year, outer years together with the past performances.

Vote Description	2010/11	Current Year 2011/12		2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Capital Expenditure - Standard						
Governance and administration	15.056	13.700	11.460	32.926	3.750	–
Executive and council	1.433	1.000	–	–	–	–
Budget and treasury office	879	2.100	–	–	–	–
Corporate services	12.744	10.600	11.460	32.926	3.750	–
Community and public safety	24.397	6.153	16.580	13.940	2.500	–
Community and social services	16.514	1.200	3.620	–	1.000	–
Sport and recreation	601	2.375	2.114	4.880	1.500	–
Public safety	2.029	2.478	10.846	9.060	–	–
Housing	5.213	100	–	–	–	–
Health	40	–	–	–	–	–
Economic and environmental services	36.711	85.752	138.969	162.689	84.906	77.287
Planning and development	14.816	5.600	14.800	11.451	7.930	6.773
Road transport	21.896	80.152	124.169	151.238	76.976	70.515
Environmental protection	–	–	–	–	–	–
Trading services	38.331	104.298	137.884	111.358	53.241	36.360
Electricity	15.637	85.450	90.342	39.050	41.390	14.954
Water	13.951	8.268	31.067	51.878	4.200	1.200
Waste water management	5.187	9.700	15.545	17.177	7.000	2.000
Waste management	3.556	880	930	3.254	651	18.206
Other	–	–	–	–	–	–
Total Capital Expenditure - Standard	114.496	209.902	304.893	320.913	144.397	113.648

Funding sources

The table below reflects the projected capital per funding source for the next three years

Vote Description	2010/11	Current Year 2011/12		2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Funded by:						
National Government	95.323	114.402	203.648	246.687	75.967	83.148
Provincial Government	–	–	–	–	–	–
District Municipality	–	–	–	–	–	–
Other transfers and grants	–	–	–	–	–	–
Transfers recognised - capital	95.323	114.402	203.648	246.687	75.967	83.148
Public contributions & donations	–	–	–	5.000	–	–
Borrowing	2.508	78.000	86.180	22.000	5.000	–
Internally generated funds	16.664	17.500	15.065	47.227	63.430	30.500
Total Capital Funding	114.496	209.902	304.893	320.913	144.397	113.648

The capital expenditure will be funded from a combination of loans, surplus cash and grants and donations.

Impact on operating expenditure

Capital spending also drives the operating budget both directly and indirectly. It is expected that the envisaged increase in capital spending will result in:

- Increased depreciation costs (average between 10% - 15% increase over the next three years).
- Increased debt servicing costs.
- Increased operational expenditure especially in the medium to long term.
- Provision will be made in the operating account to ensure that assets are maintained at a level adequate to protect the capital investments and to minimize future maintenance and replacements.

Investments

Investments for the Municipality are done in accordance with and adherence to the Municipal Investment Regulation of the MFMA, Municipality's Investment Policy and other relevant legislation.

Cash Flow forecasts and liquidity needs by the Municipality provide guidance for the type of investments employed and tenor thereof. The investments are made with primary regard for the risk profile and appetite of the investment, liquidity needs of the Municipality and the return on investments.

GT484 Merafong City - Supporting Table SA15 Investment particulars by type

Investment type R thousand	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Parent municipality							
Securities - National Government							
Listed Corporate Bonds							
Deposits - Bank	9.305	12.569	9.776	9.776	10.247	10.719	11.190
Deposits - Public Investment Commissioners							
Deposits - Corporation for Public Deposits							
Bankers Acceptance Certificates							
Negotiable Certificates of Deposit - Banks							
Guaranteed Endowment Policies (sinking)							
Repurchase Agreements - Banks							
Municipal Bonds							
Municipality sub-total	9.305	12.569	9.776	9.776	10.247	10.719	11.190
Consolidated total:	9.305	12.569	9.776	9.776	10.247	10.719	11.190

Statement of tariff setting and revenue strategies

Tariff-setting is a pivotal and strategic part of the compilation of any budget. The Council annually reviews its tariffs to ascertain whether they are still capable of producing the required revenue envelope, taking note of the prevailing trends. This process of tariff setting takes place within the framework of the Council tariff policy. The tariff policy is premised on principles of financial sustainability, social considerations as relates to the affordability of services, economic soundness and environmental considerations.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank’s inflation target.

While the municipality is committed to maintaining tariff increases within the forecasted inflation, increases above inflation are applied to some services (mainly major trading services) due to budgetary requirements aimed at sustaining service provision.

The percentage increases of both Eskom and Rand Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, these tariffs are largely outside the control of the Council. Discounting the impact of these price increases in lower consumer tariffs will erode the Council future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The

basket of goods and services utilized for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Council is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions.

For the 2012/13 financial year tariffs increases for the major services were primarily driven by the following broad considerations:

- Political and social considerations;
- Move towards cost reflective tariffs over the medium term to ensure financial, and so service delivery, sustainability- cost recovery will be phased in gradually in consideration of affordability of services;
- Maintaining the Councils infrastructure in good state of repair, mindful of the affordability of services;
- Increase in bulk purchases;
- Capital investment plans;
- Current national electricity constraints;
- Trends in the national and local economy;
- The impact of inflation and other cost increases;

Within this framework the Council has undertaken the tariff setting process relating to service charges as follows:

<u>Assessment Rates</u>

Council will implement the second valuation roll as determined by the Municipal Property rates Act in the next financial year.

Council approved the determination date for the valuation roll as the 01st July 2012 and an extensive valuation process was undertaken in order to ensure that Council will have a complete valuation roll valid from July 2012 until June 2016.

The value of the new valuation roll is 131% higher than the valuation roll of 2007.

This has resulted in that the tariffs had to be restructured.

The percentage rebate granted to different monthly household income levels of Pensioners were increased and will be determined according to the schedule below.

The proposed incomes and rebates for the 2012 / 2013 financial year for pensioners are as follows:

Gross Monthly Household Income 2012 / 2013		% Rebate
R 1	R 72 000	100.00%
R 72 001	R 76 000	75.00%
R76 001	R 80 000	50.00%
R80 001	R 84 000	25.00%

Electricity

On 09 March 2012, the National Energy Regulator of South Africa (NERSA or 'the Energy Regulator') decidedas follows:

1. That a guideline increase of 11.03% be approved for the 2012/13 municipal tariff review process. The guideline increase is based on the following assumptions:

1.1 bulk purchases have been increased by 13.50% in line with Eskom's tariff increase to municipalities;

Municipalities applying for an increase that is above the guideline will have to justify their increases to the Energy Regulator. Council applied for an increase in line with the prescription of 11.03% but was increased by NERSA to 13.33% average.

Water and Sanitation Sales

Rand Water had advised council that they will increase their water tariffs to municipalities by 11.30% from the 1 July 2012.

An availability charge will be levied for all consumers for sanitation in the 2012/2013 financial year. The availability charge will be in line with the basic charge as per council's tariff policy. Further council will for the 2012/2013 financial year implement block tariffs for sanitation. This will be in line with water.

Councils water tariffs are fully cost reflective and do protect basic level of services.

A water loss management strategy is approved and will be implemented during the 2013/2013 financial year. Water used by council own properties are levied and do not form part of unaccounted for water.

Council had received a grant from the department of Water and Forestry's to roll out the strategies in the water loss management strategy.

Refuse removal

Merafong tariff increases are not In line with the requirement from National Treasury of 6% and will increased by 10%. This was to ensure that solid waste tariffs cover the cost of providing the different components of the service.

Council are providing for the rehabilitation of the landfill site and are provided for in the tariffs. A provision for the rehabilitation of the land fill site in terms of GRAP 19 is in place and backed by cash reserves.

Budgeted allocations and grants to the municipality

Section 216 of the Constitution provides for national government to transfer resources to municipalities in terms of the annual Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their functions. These allocations are announced annually in the national budget. Transfers to municipalities from national government are

supplemented with transfers from provincial government. Further, transfers are also made between district municipalities and local municipalities.

It is important that all these transfers are made transparently, and properly captured in municipalities' budgets. In this regard, regulation 10 of the Municipal Budget and Reporting Regulations provides guidance on when municipalities should reflect a transfer on their budgets.

GT484 Merafong City - Supporting Table SA20 Reconciliation of transfers, grant receipts and unspent funds

Description	2010/11	Current Year 2011/12		2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Operating transfers and grants:						
National Government:						
Balance unspent at beginning of the year	2.692	2.692	–	–	–	–
Current year receipts	312	170.118	161.747	190.108	201.581	216.364
Conditions met - transferred to revenue	312	172.810	161.747	190.108	201.581	216.364
Conditions still to be met - transferred to liabilities	2.692	–	–	–	–	–
Provincial Government:						
Balance unspent at beginning of the year	70.077	21.027	21.027	21.027		
Current year receipts	107.194	340.734	138.782	122.087	–	–
Conditions met - transferred to revenue	156.244	340.734	138.782	122.087	–	–
Conditions still to be met - transferred to liabilities	21.027	21.027	21.027	21.027		
District Municipality:						
Balance unspent at beginning of the year	1.115	(350)	(350)			
Current year receipts	100					
Conditions met - transferred to revenue	1.565	(350)	(350)	–	–	–
Conditions still to be met - transferred to liabilities	(350)					
Other grant providers:						
Balance unspent at beginning of the year						
Current year receipts						
Conditions met - transferred to revenue	–	–	–	–	–	–
Conditions still to be met - transferred to liabilities						
Total operating transfers and grants revenue	158.120	513.194	300.180	312.195	201.581	216.364
Total operating transfers and grants - CTBM	23.369	21.027	21.027	21.027	–	–
Capital transfers and grants:						
National Government:						
Balance unspent at beginning of the year	36.478	32.601	32.601	28.487	25.632	27.898
Current year receipts	71.052	69.537	69.537	89.163	78.233	82.756
Conditions met - transferred to revenue	74.929	52.518	73.651	92.018	75.967	83.148
Conditions still to be met - transferred to liabilities	32.601	49.620	28.487	25.632	27.898	27.506
Provincial Government:						
Balance unspent at beginning of the year	105.060	184.666	184.666	154.669		

Current year receipts	100.000	–	100.000	–		
Conditions met - transferred to revenue	20.394	61.884	129.997	154.669	–	–
Conditions still to be met - transferred to liabilities	184.666	122.782	154.669			
District Municipality:						
Balance unspent at beginning of the year						
Current year receipts						
Conditions met - transferred to revenue	–	–	–	–	–	–
Conditions still to be met - transferred to liabilities						
Other grant providers:						
Balance unspent at beginning of the year	(699)					
Current year receipts						
Conditions met - transferred to revenue	–	–	–	–	–	–
Conditions still to be met - transferred to liabilities	(699)					
Total capital transfers and grants revenue	95.324	114.402	203.648	246.687	75.967	83.148
Total capital transfers and grants - CTBM	216.568	172.402	183.156	25.632	27.898	27.506
TOTAL TRANSFERS AND GRANTS REVENUE	253.444	627.596	503.828	558.882	277.548	299.512
TOTAL TRANSFERS AND GRANTS - CTBM	239.937	193.429	204.183	46.659	27.898	27.506

CHAPTER 9

Councillor Allowances and Employee Benefits

The period of the Salary and Wage Collective Agreement 2009/10 to 2011/2012 has come to an end. In the absence of other information from the South African Local Government Bargaining Council, municipalities are advised to budget for a 5 per cent cost-of-living increase adjustment, to be implemented with effect from July 2012 (in-line with the increase proposed in the 2012 MTBPS).

It's recommended not to budget for 5% increase but rather prime plus 2%.

National Treasury requires that municipalities should not just employ more people without any reference to the level of staffing required to deliver effective services, and what is financially sustainable over the medium term.

Additional funding was made available to fund additional vacancies. The departments had requested additional positions to be filled in the 2012/2013 financial year. It's clear that the present organizational structure does not speak to the needs and priorities of the departments.

GT484 Merafong City - Supporting Table SA22 Summary councillor and staff benefits

Summary of Employee and Councillor remuneration	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
	C	D	E	F	G	H	I
Councillors (Political Office Bearers plus Other)							
Basic Salaries and Wages	13.779	15.410	15.275	15.275	15.309	16.227	17.201
Cellphone Allowance	–		–	–	–	–	–
Other benefits and allowances	–		–	–	–	–	–
Sub Total - Councillors	13.779	15.410	15.275	15.275	15.309	16.227	17.201
% increase	–	11.8%	(0.9%)	–	0.2%	6.0%	6.0%
Senior Managers of the Municipality							
Basic Salaries and Wages	6.022	6.509	6.509	6.509	8.910	9.622	10.392
Performance Bonus	434	911	911	911	1.069	1.155	1.247
Sub Total - Senior Managers of Municipality	6.456	7.420	7.420	7.420	9.979	10.777	11.639
% increase	–	14.9%	–	–	34.5%	8.0%	8.0%
Other Municipal Staff							
Basic Salaries and Wages	129.148	131.174	137.404	137.404	191.265	202.541	214.478
Pension and UIF Contributions	27.611	25.132	28.044	28.044	41.371	43.853	46.484
Medical Aid Contributions	12.759	13.678	13.324	13.324	12.940	13.717	14.540
Overtime	22.672	22.262	19.167	19.167	18.874	20.006	21.206

Performance Bonus	–	–				–	–
Motor Vehicle Allowance	6.779	7.059	6.267	6.267	8.808	9.336	9.897
Cellphone Allowance	1.215	1.176	1.599	1.599	2.332	2.472	2.620
Housing Allowances	1.327	1.362	1.183	1.183	1.483	1.572	1.666
Other benefits and allowances	3.571	21.373	12.379	12.379	5.481	5.810	6.159
Payments in lieu of leave	–	–	–	–	–	–	–
Long service awards	–	–	–	–	1.050	1.113	1.180
Post-retirement benefit obligations	–	–	–	–	3.045	3.228	3.422
Sub Total - Other Municipal Staff	205.081	223.216	219.366	219.366	286.648	303.647	321.651
% increase	–	8.8%	(1.7%)	–	30.7%	5.9%	5.9%
Total Parent Municipality	225.317	246.045	242.061	242.061	311.936	330.652	350.491
	–	9.2%	(1.6%)	–	28.9%	6.0%	6.0%
TOTAL SALARY, ALLOWANCES & BENEFITS	225.317	246.045	242.061	242.061	311.936	330.652	350.491
0							
TOTAL MANAGERS AND STAFF	211.538	230.635	226.786	226.786	296.627	314.424	333.290

Chapter 10

Capital Budget

The Council tables a capital budget totalling R320 Million for the 2012/2013 financial year. The table bellows indicates the projections for the current year, outer years together with the past performances.

GT484 Merafong City - Supporting Table SA34a Capital expenditure on new assets by asset class

Description	2010/11	Current Year 2011/12		2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Capital expenditure on new assets by Asset Class/Sub-class						
–						
Infrastructure	69.157	183.149	260.805	255.443	126.217	86.669
Infrastructure - Road transport	33.848	80.051	123.073	146.084	76.976	70.515
Roads, Pavements & Bridges	33.848	77.051	97.073	104.584	66.976	60.515
Storm water		3.000	26.000	41.500	10.000	10.000
Infrastructure - Electricity	16.308	84.850	90.192	39.050	41.390	14.954
Generation						
Transmission & Reticulation	16.308	84.850	90.192	38.400	14.930	2.200
Street Lighting				650	26.460	12.754
Infrastructure - Water	13.855	8.168	31.067	51.878	2.200	1.200
Dams & Reservoirs		–		13.678	2.200	1.200
Water purification	13.855		8.396	38.200		
Reticulation		8.168	22.670			
Infrastructure - Sanitation	5.146	9.500	16.473	15.177	5.000	–
Reticulation	5.146	9.500	13.206	7.677		
Sewerage purification		–	3.267	7.500	5.000	
Infrastructure - Other	–	580	–	3.254	651	–
Waste Management		580		3.254	651	
Community	16.586	4.753	5.734	14.203	2.500	–
Parks & gardens		1.375	1.375	1.500	1.500	
Sportsfields & stadia	661	–	739	6.677		
Libraries	3.656	–	2.620			
Fire, safety & emergency	1.857			6.026		
Security and policing		2.378				
Museums & Art Galleries					1.000	
Cemeteries	10.413	1.000	1.000			
Other assets	28.072	22.001	38.354	51.268	15.680	26.979

General vehicles	1.062					
Plant & equipment	934	930	930	2.000	4.000	2.000
Computers - hardware/equipment	1.575	150	150			
Furniture and other office equipment	3.104	3.538				
Civic Land and Buildings	9.927	500	3.665	3.511	1.150	
Other Buildings	6.442	15.583	31.809	26.588	10.530	24.979
Other Land	5.026	1.300	1.800	19.169		
Intangibles	680	–	–	–	–	–
Computers - software & programming	680					
Other *(list sub-class)*						
Total Capital Expenditure on new assets	114.496	209.902	304.893	320.913	144.397	113.648

Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Capital Expenditure - Standard										
Governance and administration	2.262	3.908	15.056	13.700	11.460	11.460	11.460	32.926	3.750	–
Executive and council	319	881	1.433	1.000	–	–	–			
Budget and treasury office	1.943	3.027	879	2.100	–	–	–			
Corporate services			12.744	10.600	11.460	11.460	11.460	32.926	3.750	–
Community and public safety	9.504	12.050	24.397	6.153	16.580	16.580	16.580	13.940	2.500	–
Community and social services	3.729	5.432	16.514	1.200	3.620	3.620	3.620	–	1.000	–
Sport and recreation	1.833	980	601	2.375	2.114	2.114	2.114	4.880	1.500	–
Public safety	20	35	2.029	2.478	10.846	10.846	10.846	9.060	–	–
Housing	3.819		5.213	100						
Health	103	5.603	40	–						
Economic and environmental services	3.490	29.134	36.711	85.752	138.969	138.969	138.969	162.689	84.906	77.287
Planning and development	788	2.469	14.816	5.600	14.800	14.800	14.800	11.451	7.930	6.773
Road transport	2.702	26.096	21.896	80.152	124.169	124.169	124.169	151.238	76.976	70.515
Environmental protection	–	569		–						
Trading services	121.480	96.924	38.331	104.298	137.884	137.884	137.884	111.358	53.241	36.360
Electricity	22.318	8.598	15.637	85.450	90.342	90.342	90.342	39.050	41.390	14.954
Water	55.882	68.802	13.951	8.268	31.067	31.067	31.067	51.878	4.200	1.200
Waste water management			5.187	9.700	15.545	15.545	15.545	17.177	7.000	2.000

Waste management	43.280	19.524	3.556	880	930	930	930	3.254	651	18.206
Other										
Total Capital Expenditure - Standard	136.736	142.017	114.496	209.902	304.893	304.893	304.893	320.913	144.397	113.648
Funded by:										
National Government	101.734	125.610	95.323	114.402	203.648	203.648	203.648	246.687	75.967	83.148
Provincial Government	3.818	–								
District Municipality	–	–								
Other transfers and grants	–	–		–						
Transfers recognised - capital	105.552	125.610	95.323	114.402	203.648	203.648	203.648	246.687	75.967	83.148
Public contributions & donations				–				5.000	–	–
Borrowing			2.508	78.000	86.180	86.180	86.180	22.000	5.000	–
Internally generated funds	31.184	16.407	16.664	17.500	15.065	15.065	15.065	47.227	63.430	30.500
Total Capital Funding	136.736	142.017	114.496	209.902	304.893	304.893	304.893	320.913	144.397	113.648

CHAPTER 11

Legislation Compliance Status

The promulgation of the Municipal Finance Management Act (The Act) has brought in proficiency and control measures to local government in terms of budgeting, monitoring and accounting on public funds. The Act has had a profound effect on local government operations that required transformation in financial discipline and planning processes. The budget preparation for 2012/2013 to 2014/2015 complies with most of these key requirements.

The Act has created clear reporting standards for local government that conforms to international standards. In addition to providing for improved reporting by local government, the Act stipulates that new accounting and financial standards must be complied with. The Municipality's electronic reporting to National Treasury has also been complied with and has also improved over time. The monthly and quarterly returns to National Treasury have been submitted on time.

In accordance with the provisions of the Act, the Municipality has an approved Supply Chain Management policy, which was extensively consulted on. The policy is intended at regulating the supply chain management environment within the Municipality. Required resources (human, financial and otherwise) have been allocated to the Supply Chain Management department to enhance.

The reform agenda set out through the Municipal Finance Management Act includes new accounting standards, which includes national standards such as Generally Recognised Accounting Practice (GRAP).

These above mentioned accounting practices have been adhered to during the development of the budget. The Municipality's financial statements were prepared to comply with GRAP.

When preparing the budget the Municipality has complied with the requirements of the MFMA circular 28, which requires that the budget content and format must comply with the Act. The following processes were adhered to:

• The budget is legally compliant
• The process has a strong political oversight
• Performance of officials should meet the required standard
• Growth and development strategy is reflected in the budget
• There are clear linkages between the budget and the Mayoral priorities•

CHAPTER 12

Resolutions

1. The Council of Merafong City Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

   1.1. The annual budget of the municipality for the financial year 2012/13 and the multi-year and single-year capital appropriations as set out in the following tables:

   1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in ANNEXURE A;

   1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in ANNEXURE B

   1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in ANNEXURE C

   1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in ANNEXURE D

   1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

   1.2.1. Budgeted Financial Position as contained in ANNEXURE E

   1.2.2. Budgeted Cash Flows as contained in ANNEXURE F

   1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in ANNEXURE G

   1.2.4. Asset management as contained in ANNEXURE H

2. The Council of Merafong City Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2012:

   2.1. the tariffs for property rates – Detailed below

   2.2. the tariffs for electricity – Detailed below

   2.3. the tariffs for the supply of water – Detailed below

   2.4. the tariffs for sanitation services – Detailed below

   2.5. the tariffs for solid waste services – Detailed below

3. The Council of Merafong City Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2012 the tariffs for other services, as contained in the Tariff Policy

4. To give proper effect to the municipality’s annual budget, the Council of Merafong City Local Municipality approves:

4.1. That the deficit which is as of a result of depreciation costs on fair value adjustments on infrastructure assets be funded from the accumulated surplus of R2.3 billion.

4.2. That the municipality be permitted to enter into long-term loans for the funding of the capital programmes in respect of the 2012/13 financial year limited to an amount of R22 million per financial year of the MTREF in terms of Section 46 of the Municipal Finance Management Act.

4.3. That the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the above lending programme.

5. That the annual Operating Revenue budget of R1170375 and Operating Expenditure budget of R1198218 including Operational Transfers and excluding capital transfers for the 2012/2013 Financial Year be tabled, which will result in a deficit of R27 844 000. That the deficit be funded from accumulated surplus.

6. That the annual Capital Budget of R320 913 416 Including capital transfers for the 2012/2013 Financial Year be approved.

7. That the following be tabled in respect of Assessment Rates and the charge to be as follows:

a) The property rates are to be levied in accordance with Council policies, unless otherwise indicated, and the Local Government Municipal Property Rates Act 2004 and the Local Government Municipal Finance Management Act 2003.

b) Property rates are based on values indicated in the new General Valuation Roll. The Roll is updated for properties affected by land sub-divisions, alterations to buildings, demolitions and new buildings (improvements) through Supplemental Valuation Rolls. All values are as at the date of the roll, being July 2011.

c) Rebates and concessions are granted to certain categories of property usage or property owner.

d) The definitions and listing of categories are reflected in the Rates Policy.

e) Industrial / Commercial Properties – Undeveloped Land

All properties other than those defined below as residential will be rated as “non-residential” properties. This includes all undeveloped land. The cent-in-the-rand for all “non-residential” properties for 2012 / 2013 is proposed to be R 0, 024.

f) Residential Properties

For all residential properties, as defined per the Rates Policy, the first R 65 000 of property value will be rebated by an amount equal to the rates payable on a property of R 65 000 in value.

All residential properties, as defined per the Rates Policy, will be levied a rate which is rebated by 10%. The cent in the rand for 2012 / 2013 is proposed to be R 0, 01c

g) Agricultural Properties

Agricultural properties (including farms and small holdings) fall into three categories:

(a) Those used for residential purposes;
(b) Those used for industrial purposes;
(c) Those used for other businesses and commercial purposes

Properties in rural areas deemed to be small holdings or farms that are not used for *bona fide* farming, but are used as residential properties will be categorized as “residential”, provided that they meet the definition of a residential property as described in the Rates Policy. Such properties will qualify for the rebate of the first R 65 000 of municipal value as per the General Valuation Roll and the “rebated” cent-in-the-rand. The cent-in-the-rand for agricultural properties or small holdings that qualify for residential status is proposed to be R 0, 01c

Properties in rural areas deemed to be small holdings or farms that are not used for bona fide farming, but are used for industrial or business purposes will be categorized as “business”. The cent-in-the-rand for agricultural properties or small holdings that qualify for business status is proposed to be R 0, 024c

Properties in rural areas deemed to be small holdings or farms that are used for bona fide farming, will be categorized as “agricultural. The cent-in-the-rand for agricultural properties or small holdings that qualify for agricultural status is proposed to be R 0, 0025c

h) Public Service Infrastructure

In terms of the Municipal Property Rates Act, Council may not levy rates on the first 30% of the market value of Public Service Infrastructure. The remainder of the market value is rated at the non-residential cent-in-the-rand of R 0, 024c

i) Mines

All Mine properties, as defined per the Rates Policy, will be levied a rate. The cent in the rand for 2012 / 2013 is proposed to be R 0, 03c

j) Senior Citizens and Disabled Persons Rate Rebate

Registered owners of properties who are senior citizens and/or registered owners of properties who are disabled persons qualify for special rebates according to gross monthly household income. To qualify for the rebate(s) a property owner must be a natural person and the owner of a property which satisfies the requirements for the residential rebate and must on the 1 July of the financial year:

I. occupy the property as his/her normal residence and
II. be at least 60 years of age or in receipt of a disability pension from the Department of Social Development and
III. be in receipt of a total monthly income from all sources (including income of spouses of owners)
IV. not be the owner of more than one property and
V. submit the application by 30 September for this rebate for the current financial year, failing which the rebate will not be granted.

The percentage rebate granted to different monthly household income levels will be determined according to the schedule below.

The proposed incomes and rebates for the 2012 / 2013 financial year as follows:

Gross Annual Household Income 2012/2013	% Rebate
R 1 To R 72 000	100%
R 72 001 to R 76 000	75%
R 76 001 to R 80 000	50%
R 80 001 to R 84 000	25%
R 84 001 and above	0%

k) Rebates for Certain Categories of Properties / Property Users

The categories of properties qualifying for exemption and rebates are as per the Rates Policy.

l) The Budget for 2012 / 2013 has been balanced using the estimated income from levying the rates proposed in this report.

m) Provision has been made in the Budget for 2012 / 2013 for the income forgone arising from the rebates and concessions proposed in this report as detailed in the Draft Rates Policy.

n) that in terms of Section 26(1) of the Municipal Property Rates Act, the payment of any amount owed emanating from the levy of rates as determined on 1 July 2012 is payable before or on 7 August 2012 and thereafter monthly before or on the date due as determined in (i) below: with the provision that the date(s) for payment of assessment rates with regard to owners mentioned in (ii) below shall be determined as follows:

As regards one half, on 7 October 2012

as regards the balance, on 7 April 2013;

(i) that the payment shall be as follows:

Other:	**Pensioners:**
10 August 2012	16 August 2012

7 September 2012	15 September 2012
7 October 2012	15 October 2012
8 November 2012	15 November 2012
7 December 2012	15 December 2012
7 January 2013	17 January 2013
7 February 2013	15 February 2013
7 March 2013	15 March 2013
7 April 2013	15 April 2013
9 May 2013	16 May 2013
7 June 2013	15 June 2013
7 July 2013	15 July 2013

(ii) that the following Mines as well as the responsible state institution may pay in accordance with (n) :

Mines	State Institutions
Blyvooruitzicht	Gauteng Government
Deelkraal	Dept Justice
Doornfontein	S.A. Police Services
Elandsrand	Dept of Land
Driefontein	Dept. Community Development
Western Deep Levels	

8 that interest be levied at the rate as determined from time to time by the Premier in terms of Section 50(A) of the Local Government Ordinance, 1939, (Ordinance 17 of 1939) which has been determined at prime rate with effect from 1 December 1997 by the Department of Finance on all arrear charges, rates and levies from the day following the due dates as determined in (ii) (d) and (ii) (e) above;

9 That the following electricity tariffs be promulgated in terms of Sections 4 and 11(3) of the Municipal Systems Act, 2000 (Act 32 of 2000) as the Tariff of Charges: Electricity of the Merafong City Local Municipality, provided that the tariffs are approved by the National Electricity Regulator.

Proposed Tariff Structure - Merafong City Local Municipality

Tariff Category		Current	Proposed	% change
1 (a). Domestic				
Basic Charge		43.4418	48.2334	11.03%
	Block 1 (0 - 50kWh)	0.6330	0.6710	6.00%
	Block 2 (51 - 350kWh)	0.7100	0.7954	12.03%
	Block 3 (351 - 600kWh)	0.9500	1.0816	13.85%
Energy Charge	Block 4 (above 600kWh)	1.1400	1.2968	13.75%
2. Commercial				
Basic Charge		499.0000	554.0397	11.03%
Energy Charge		0.8750	1.0263	17.29%
*Pre-Paid		0.8750	1.0263	17.29%
3. Industrial				
Basic Charge		715.3900	794.2975	11.03%
Energy Charge		0.4828	0.5752	19.14%
Demand Charge		143.0700	158.8506	11.03%
3. Industrial -3%				
Basic Charge		715.3900	794.2975	11.03%
Energy Charge - 3 %		0.4828	0.5752	19.14%
Demand Charge -3%		143.0700	158.8506	11.03%
Temporary Power		1.0140	1.1258	11.03%
Streetlights		0.7620	0.8460	11.03%
Council kWh		0.4980	0.5529	11.03%
2% Surcharge				

10. that the following Water Tariff be tabled and the tariffs be promulgated in terms of Sections 4 and 11(3) of the Municipal Systems Act, 2000 (Act 32 of 2000) as the Tariff of Charges: Water of the Merafong City Local Municipality.

		2011/2012	2012/2013	% Increase
Residential 0 – 15 kilolitres		6.03	6.78	12.50%
Residential 16-35 kilolitres		8.07	9.16	13.50%
Residential 36 - 50		11.49	13.04	13.50%
Residential 51 kilolitres and above		13.08	14.86	13.61%
Business and Industrial	200 Kiloliters and below	13.09	14.86	13.50%
	Above 200 Kiloliters	13.09	15.60	19.20%
Special Consumers (Schools, Churches and welfare organisations)	200 Kiloliters and below	9.89	11.23	13.50%
	Above 200 Kiloliters	9.89	12.35	24.85%
Mines Domestic		8.60	9.76	13.50%
Mines Operations		8.60	9.76	13.50%
Availability Charge	Vacant Stands - Residential	30.00	35.00	16.67%
Availability Charge	Vacant stands- business	15.00	17.50	16.67%

11 that the following Refuse Removal Tariff be tabled and the tariffs be promulgated in terms of Sections 4 and 11(3) of the Municipal Systems Act, 2000 (Act 32 of 2000) as the Tariff of Charges: Cleaning Services of the Merafong City Local Municipality:

CLEANSING: (PLUS V.A.T.):

		Present	Proposed
Residential	1 bin/week	75.00	82.50
Business	Bin/week	75.00	82.50
Business	Bin/3 x week	190.00	247.50
Business	Bin/5 x week	275.00	412.50
Mini Bulk Containers	1 MBC/1 x week	1,150.00	1236.25
Mini Bulk Container	1 MBC/2 x Week	1,750.00	2187.50
Mini Bulk Container	1 MBC/3 x Week	2,500.00	3125.00
Mini Bulk Container	1 MBC/ 5 x Week	4 500.00	5625.00
Bulk Container	1 Bulk/1 x Week	16,700.00	17952.50
Bulk Container	1 Bulk/2 x Week	25,500.00	27412.50
Bulk Container	1 Bulk/3 x Week	46,000.00	49450.00
Bulk Container	1 Bulk/5 x Week	75,000.00	80625.00
Temporary Service	Per Bin	40.00	44.00
Bulk Waste	Per m³	200.00	220.00
Special Exemption	Per m³	93.37	110.00
Garden Services Waste	cent per Kilogram	25.00	0.02c per kg
Large Animal Carcases			385.00
Small Animal Carcases		75.00	110.00
Removal of Condemned Food (Per m³)			110.00
Household / Business Waste	cent per Kilogram	190.00	0.02c per kg
Building Rubble	cent per Kilogram	200.00	0.05c per kg
Disposal at Drop-Off Facilities	per m³		25.00
240 Liter Bins	Per Month for twelve months	20.00	20.00

12 And that the following Sewerage Tariff be tabled and that the tariffs be promulgated in terms of Sections 4 and 11(3) of the Municipal Systems Act, 2000 (Act 32 of 2000) as the Tariff of Charges: Drainage Services of the Merafong City Local Municipality:

		2011/2012	2012/2013	% Increase
Residential 0 – 15 kiloliters		3.35	3.55	5.97%
Residential 16-35 kiloliters		3.35	3.60	7.46%
Residential 36-50 kiloliters		3.35	3.65	8.96%
Max 50KL				
Business and Industrial	200 Kiloliters and below	3.35	3.65	8.96%
	Above 200 Kiloliters	3.35	4.02	20.00%
Special Consumers (Schools, Churches Welfare organisations and consumers as approved by council)	200 Kiloliters and below	1.60	3.55	121.88%
	Above 200 Kiloliters	1.60	3.65	128.13%
Basic Charge (Payable by property owner)		0.00	20.00	New Tariff
Basic Charge - Vacant Stands (Availability charge		40.00	45.00	12.50%

13 That Council considers the amendments to the Tariff Policy.

14 That Council considers the amendments to the Rating Policy.

15 That Council considers the amendments to the budget related policies of Council.

16 That council consider the miscellaneous tariffs as included in the tariff policy and that the tariffs be promulgated in terms of Sections 4 and 11(3) of the Municipal Systems Act, 2000 (Act 32 of 2000).

Municipal Managers Quality Certification